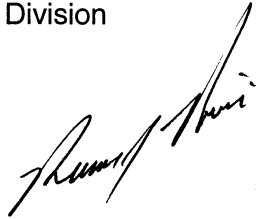


Memorandum

To : Ms. Deborah Pellegrini, Chief
Board Proceedings Division

Date : January 12, 2005

From : Ramon J. Hirsig
Executive Director



Subject: **February 8, 2005, Administrative Agenda Budget Item**

At the February 8, 2005 Board meeting, under the Administrative Agenda "Other Matters" item on the Agenda, the following three 2005-06 fiscal year (FY) Finance Letters are to be submitted for the Board Members consideration.

- A. Out- of -State Legal Bankruptcy Cases
- B. Consumer Use Tax Section (CUTS) Revenue Enhancement
- C. Revised Alternative Cigarette Tax Stamps Contract

With the Board Members approval, the Finance Letters will be forwarded to the Department of Finance for their consideration for inclusion in the FY 2005-06 Budget May Revise package.

If you have any questions regarding this request, please contact Ms. Raye Zentner, Deputy Director of Administration at 445-4272, or Ms. Marcia Davey, Chief of the Financial Management Division at 445-3811. Thank you.

RJH:jg

Attachment

cc: Ms. Raye Zentner
Ms. Marcia Davey
Mr. Rene Gutierrez
Ms. Meg Svoboda
Mr. Gary Evans
Ms. Joann Richmond
Ms. Robbie Ramirez

Summary of 2005-06 Finance Letters.

Out of State Legal Bankruptcy Cases

- This proposal requests an estimated \$1,763,000 (General Fund and Reimbursements) and 3.8 personnel years (PYs) in the budget year (FY 2005-06) and ongoing to perform the necessary legal services to litigate out-of-state bankruptcy cases.
- Effective January 4, 2005 the Attorney General's Office informed the Board of Equalization (BOE) that it does not have the resources to represent the BOE in out-of-state bankruptcy cases. Lack of BOE representation in the out-of-state courts handling these cases would result in a potential revenue loss of over \$10 million annually to the State of California.
- This proposal requests the resources necessary for the BOE to assume the responsibility from the State Attorney General's Office for the internal management of out-of-state bankruptcy cases providing approximately \$10 million in revenue to California annually. Therefore, this proposal estimates a benefit-to-cost ratio of 6 to 1 for FY 2005-06 and ongoing.

Consumer Use Tax Section (CUTS) Revenue Enhancement

- The Consumer Use Tax Section (CUTS) requires seven (7) additional positions to increase compliance of vehicle, vessel, and aircraft transactions subject to the use tax. These positions will produce additional use tax revenues of \$2.7 million in Fiscal Year (FY) 2005-06 and \$5.4 million in FY 2006-07.
- The total resources needed are 7.0 positions (6.7PYs) and \$406,000 (\$264,000 General Fund and \$142,000 Reimbursements) for FY 2005-06 and 7.0 positions (6.7 PYs) and \$330,000 (\$215,000 General Fund and \$115,000 Reimbursements) for FY 2006-07.
- The benefit- to-cost ratio of this proposal is 6.7:1 for FY 2005-06 and 16.4:1 for FY 2006-07.

Revised Alternative Cigarette Tax Stamps Contract

- This proposal proposes a cost reduction to reflect the actual cost for the Alternative Cigarette Tax Stamps (ACTS) contract. This contract is between the Board of Equalization and a contracted vendor to develop and produce anti-counterfeiting encrypted stamps, responsible for the manufacture and installation of the stamp application equipment, and development of a data management system for the encrypted stamp information.
- The ACTS contract is the result of Senate Bill 1701 (Peace) (Chapter 881, Statutes of 2002) which mandated that the Board of Equalization seek to minimize the revenue lost due to cigarette and tobacco tax evasion activity by requiring a form of cigarette tax stamp that contains encrypted data capable of being read using a scanning or similar device.
- The total estimated cost reductions of the contract are
 - \$1,945,848 in FY 2004-5 and
 - \$4,495,000 in FY 2005-06 and ongoing.

With these reductions, the new total ongoing cost of the contract is \$5,312,000.

- The total estimated revised revenue increases as a result of the development of the new cigarette tax stamps to prevent tax evasion are \$7,751,917 in FY 2004-05 and \$26,578,000 in FY 2005-06 and ongoing. Therefore, the benefit-to-cost ratio starting in FY 2005-06 is approximately 5 to 1.